



**Executive Office of the Mayor  
Vaughn D. Spencer**

January 13, 2014

To: Members of City Council  
Re: 2015 budget gap options

I am proposing we immediately begin a comprehensive and objective assessment of all available options for addressing the 2015 Budget shortfall and for placing the city on a firm financial footing for the future. I propose the assessment be conducted jointly, with council and the Administration as equal partners.

Based on our discussions over the past 18 months, formal and informal, I am aware of six options that have received at least some attention:

- a. Negotiate a short term lease with RAWA that provides annual payments equal to or greater than the total of the current lease and supplemental payment.
- b. Negotiate a short term lease with RAWA as a stopgap measure that will provides sufficient revenue until a long term fix is negotiated.
- c. Undertake a competitive bid process for a lease/sale agreement effective 2015 that will monetize assets and provide either a large upfront payment or staggered payments over the term of the agreement.
- d. Raise taxes and fees annually as needed to cover the current level of services.
- e. Permanent furlough of 100-150 employees.
- f. Allow the city to default on its obligations and be placed in receivership.

If there are any other options which I've overlooked and ought to be included now is the time to place them squarely on the table.

Options d, e, and f are absolutely unacceptable and, absent meaningful support from council, should be dismissed from further consideration at the outset.

So as to not oversimplify the process, it should be noted that the final decision could be fashioned by modifying and combining several options (except for option f which remains unacceptable under any circumstances).

The process for the assessment needs to be transparent, inclusive, and fair to all concerned. As requested by Council, John Miravich will conduct a preliminary assessment of the short term approaches, and the Administration will take the lead on considerations for a long term solution via a competitive bid process.

Aspects of the process will require absolute confidentiality either for proprietary, legal or other compelling reasons. This may require special arrangements for dissemination of documents or information related to the process. Council and the administration must jointly establish protocols to ensure against breeches of confidentiality.

I further recommend that a mutually acceptable facilitator be engaged to ensure communications between council and the Administration remain civil, professional and productive throughout the process.

Finally, I propose we adopt the following set of guidelines to govern the process and ensure an outcome that has been fully and thoughtfully evaluated by all parties. I would welcome input from council on these or any other guidelines which would help:

- At least one member of council but less than four shall be present for all meetings with the Administration, financial advisors, legal counsel, bond counsel, and other involved parties.
- Any substantive or procedural decision which has the potential to materially impact the process or outcome shall have demonstrable support from a majority of council.
- Each individual member of council shall be notified whenever council is requested or required to make a decision which may have material impact.
- Neither city council, its individual members, council staff, the Mayor or any representative of the Administration shall comment publically on any aspect of the process without providing 24 hours advance, written notice to the counterpart.

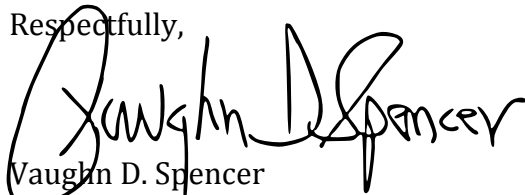
Listed below are just some of the larger, more important questions which arise and I am sure there are many others which will surface as the process goes forward:

1. What is the value of the water system and how is that value determined?
2. Which options are permissible under state and federal law?
3. Which option will have the smallest net financial impact on city residents and property owners?
4. Which options can be implemented within the given time frame?
5. What are main objectives when assessing options?
6. What are the steps necessary to implement any given option?
7. If full monetization is chosen, how will the money be used...short term... long term?
8. What is the impact of increasing interest rates?
9. Is there a potential for further restrictions (i.e. Act 73) being imposed by the state?
10. How will the selected option be viewed by PFM... DCED...bond markets?
11. Will the community support the process and the option selected?
12. What will be the impact on RAWA employees?

13. Who will control rate setting?
14. Will the PUC have jurisdiction in setting rates?
15. How would the option selected impact the city's economic development plans?
16. What would be the impact on Act 47 oversight?
17. Can the state force asset sales in the case of default?
18. Will the city be able to reduce real estate taxes...eliminate nuisance taxes... by how much?
19. Will (or should) the city pay down pension and other obligations...by how much?

The assessment process I'm proposing is complicated and requires extensive discussions, research, and deliberation. The decision to move forward with the assessment is easy and I respectfully ask that it be made tonight. We simply have no other choice.

Respectfully,



Vaughn D. Spencer  
Mayor